

CDIAC - Mechanics of a Bond Sale

Plan of Finance

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GFOA Multi-Year Capital Planning

(2006) (CEDCP)

“A prudent multi-year capital plan identifies and prioritizes expected needs based on a community’s strategic plan, establishes project scope and cost, details estimated amounts of funding from various sources, and projects future operating and maintenance costs.”

Plan of Finance

What is it?

- A long-term planning tool to balance scarce resources among ongoing expenditures and capital needs

What does it do?

- Identifies capital needs and available sources of revenue to fund them
 - Helps control revenue streams/expenditures and develops a rate-setting/budgeting plan to meet funding objectives
- Determines the feasibility of various funding options
 - Helps develop strategies for minimizing borrowing costs over time

Rating Agency Perspective

Standard and Poor's 2005

“Does management have a long-term financial plan that allows them to identify future revenues and expenditures as well as address upcoming issues that might affect these?”

Grading of Long-Term Financial Plans

Standard and Poor's 2005

Strong

- Multi-year financial plan exists where future issues are identified and possible solutions are identified
- Revenue and expenditure decisions are made primarily from a long-term perspective
- Structural balance is a clear goal

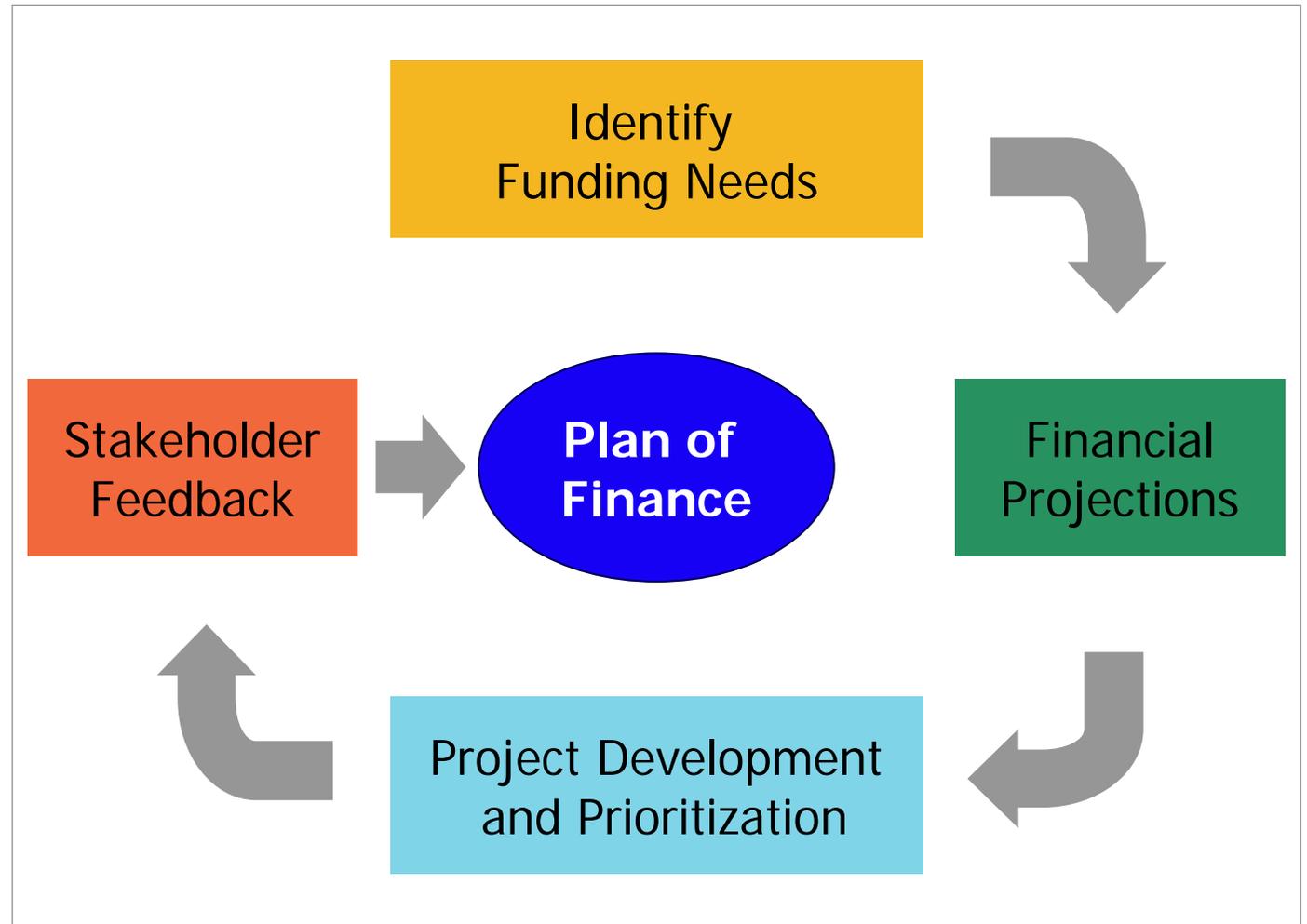
Standard

- Multi-year projections are done informally; without discussion of pending issues, so that issues are not addressed
- Some one-shot actions exist, but the long-term consequences of these actions are acknowledged and communicated

Vulnerable

- No long-term financial planning exists
- Operational planning is done on a year-to-year (or budget-to-budget) basis
- One-shot budget fixes are used with little attention to long-term consequences

Developing a Plan of Finance



Elements of a Plan of Finance

Projects

- Capital improvement plan that identifies and prioritizes projects
- Reliable cost estimates that incorporate future capital costs and O&M of the project to be financed

Revenue

- Realistic revenue forecasts
- Address the longevity, availability, reliability and flexibility of future revenue sources

Financial Policies and Targets

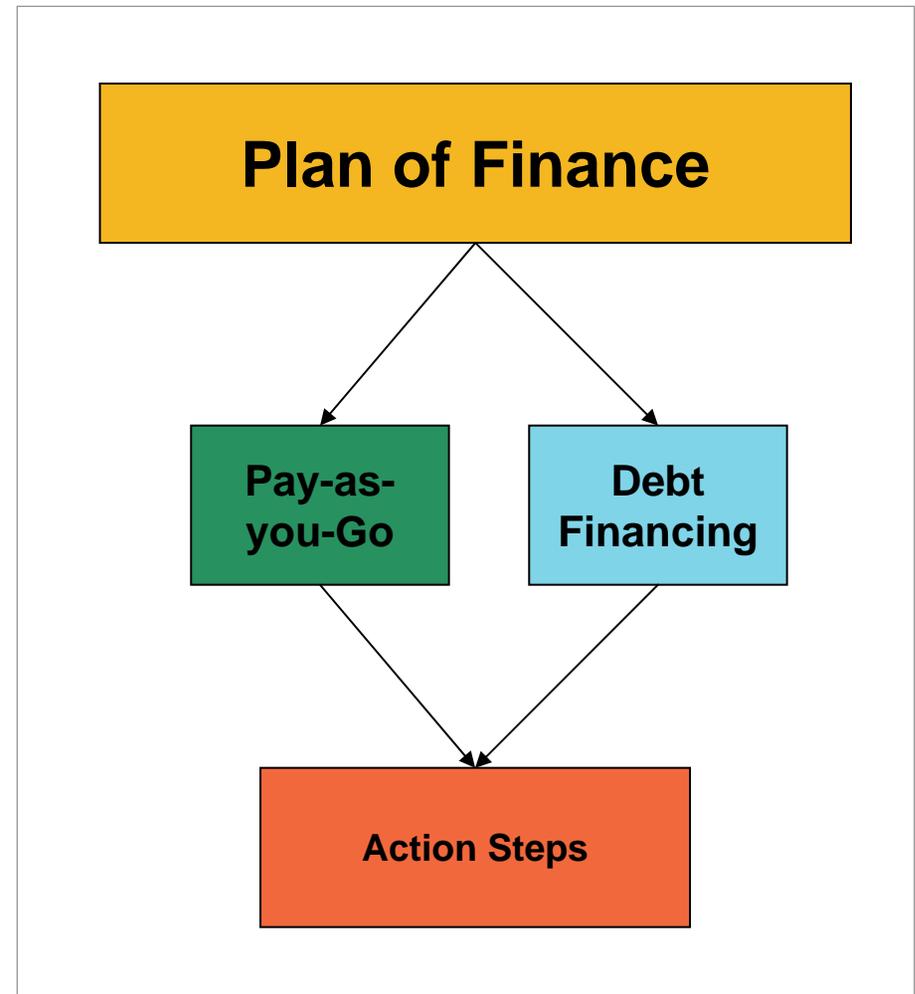
- Debt Policy
- Coverage target
- Ratings target
- Tax/Fee target
- Reserve target

Legal Framework

- Authorization to levy taxes or fees
- Authorization to issue debt
- Tax law governing the issuance of debt and use of proceeds

Determining the Optimal Funding Plan

- A plan of finance will help evaluate the affordability of the financing strategy
 - Pay-as-you-Go, Debt, or a Combination
- It helps determine the necessary action steps to meet funding needs
 - Budget actions, rate or fee setting, etc.



Sample Plan of Finance Objectives

- Use a Combination of Debt and Cash to Fund the Capital Improvement Program
- Maintain Targeted Debt Service Coverage
- Maintain/Improve Credit Ratings

Sample Financial Projections

Large Water Utility in California

Sample Financial Projections

\$MM

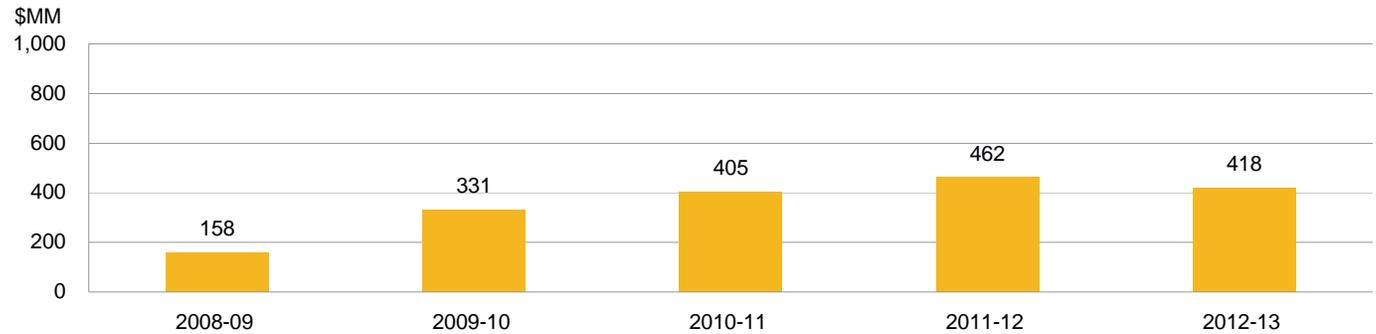
	2008-09	2009-10	2010-11	2011-12	2012-13	Total
Total Operating Revenue	814	881	946	1,035	1,107	3,969
Total O & M Expenses	339	366	363	372	388	1,490
Total Capital Expenditures	416	580	585	637	614	2,417
Total Borrowing	158	331	405	462	418	1,616
Net Income	91	108	116	137	146	597
Debt Service Coverage	1.98 x	2.03 x	2.00 x	2.07 x	2.03 x	

Bond Issuance Timing Considerations

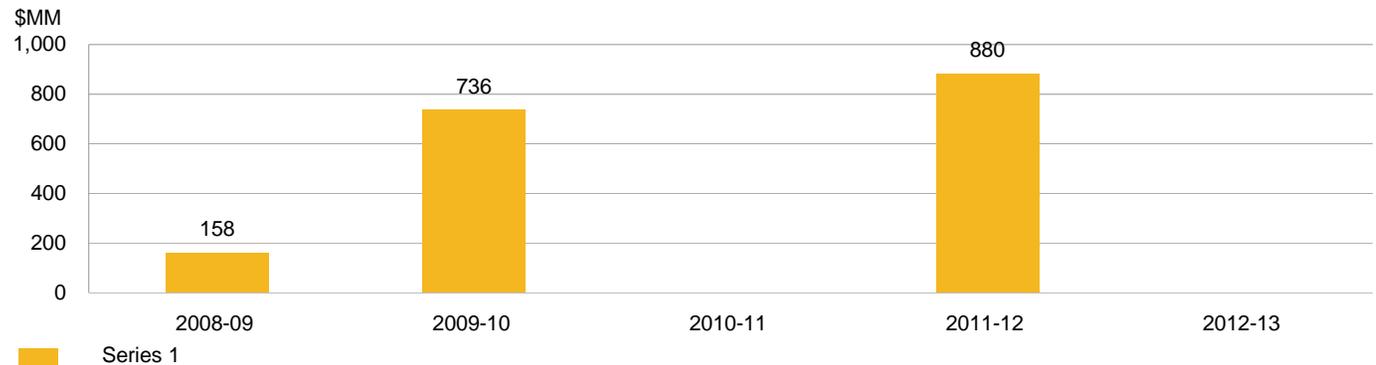
- Regulations provide exceptions to arbitrage rebate requirements including spending exceptions for:
 - 6-months
 - 18-months
 - 2-years
- Larger less frequent financings can reduce cost of issuance and the amount of staff resources dedicated to bond financing

Bond Issuance Timing Options

External Financing Needs



Alternative Financing Plan



Plan of Finance Must Be Flexible

- Rate increases approved or not
- New environmental/legislative mandates
- New management/elected officials
- Economic environment changes
- Tax law changes
- Credit rating downgrade/upgrade

Bond Financing Considerations

- Nature of the asset to be financed
- Source of repayment
- Fixed vs. variable rate
- Credit enhancement
- Tax law
- Bond sale timing

Optimizing Debt Issuance in Light of Plan of Finance

Debt Profile

- Evaluate impact on debt affordability of various terms or structures

Financial Risk Management

- Assess impact of new debt on the risk profile

Cash

- Evaluate options of available cash
 - Equity contribution
 - Reserves
 - Defeasance

Market

- Analyze refunding or restructuring opportunities
- Impact of the shape of the yield curve
- Unique opportunities

Summary

- A Plan of Finance is a management tool that is used in conjunction with debt and other policy objectives to develop the optimal funding strategy to meet future capital needs
- It is not meant to remain static, but should be revisited and flexible
 - It should allow for continuous feedback and should be responsive to the needs of the various stakeholders
 - It should be flexible, in order to respond to any unforeseen challenges and to capitalize on any unique market opportunities